

Farm Succession Planning Steps and Checklist

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Factsheet

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INTRODUCTION

There are many different ways to define succession planning. One approach is to think of it as a process occurring over time during which a family plans for the transfer of knowledge, skills, labour, management, control and ownership of the farm business between the founder (retiring) generation and the successor (next) generation. It involves the creation, preservation and ultimately the transfer of the farm business assets in order to achieve personal, family and business goals.

Each family farm business is unique and no single approach works for everyone. It is important to understand that the family farm business (and therefore a succession plan) involves the interaction of people in the strong bonds of family, who make decisions affecting the farm business.

You may be eligible to access cost-shared funding to develop a succession plan under the Growing Forward Business Development for Farm Businesses Program. By participating in a Growing Your Farm Profits workshop and developing an action plan for your farm, you can access the following advisory services and learning opportunities:

- Farm Financial Assessment (which can support financial plan development)
- Agriculture Skills Development (which can support successor training and other skills development aspects)
- Advanced Business Planning (which can include developing a succession plan)
- Business Plan Implementation (which can assist in some succession plan implementation costs such as legal documentation of ownership transfer)

Additional information about each of these can be obtained by calling OMAFRA at 1-888-479-3931 or at www.ontario.ca/growingforward. Applicants must meet the program eligibility criteria and adhere to all program terms and conditions and project claim submission deadlines to qualify for cost-share.

SECTION 1 — A STEP-BY-STEP APPROACH WHAT ARE THE STEPS IN SUCCESSION PLANNING?

Succession planning has a series of steps. Some of these steps have smaller parts. They are not always easily placed in a sequence. However, it does help to organize the process into major steps. This Factsheet summarizes the process into steps.

Preliminary Step: Open the Lines of Communication, Define Objectives and Goals, Identify Successor and Assess Compatibility of Objectives and Goals

Step 1: Collect and Analyze Information

Step 2: Generate Options

Step 3: Make Preliminary Decisions

Step 4: Design, Develop, Write and Review

Step 5: Implement and Monitor

As mentioned, it is important to understand that these steps are not necessarily in a sequence (one after the other) or in a set order. Some parts must be done sequentially (one after another), but others can be done concurrently (at the same time) and still others can be completed in a random order.

PRELIMINARY STEP

Open the Lines of Communication

The first and most important step, actually a pre-step before even considering succession, is to open the lines of communication between the generations. Once the generations are talking, everyone will start to think about his or her involvement in the future of the farm business.

Define Personal, Family and Business Objectives and Goals

Once communication is occurring, the founders and next generation must define their separate objectives, goals and expectations for themselves, their family and the business.

Identify Successor

When defining their objectives and goals, a major consideration for the next generation is whether they wish to be involved in the business. If the answer is yes, they become a potential successor. The process then moves forward within the framework of transitioning to the next generation. If the answer is no, discussions and decisions eventually focus on preserving family wealth and the transition out of farming.

Assessment of Compatibility of Objectives and Goals

With the successor identified, family members need to honestly assess the compatibility of each other's business and personal objectives, goals and expectations. A strategy to address serious discrepancies and incompatibilities needs developing.

The goal is to reach consensus (among the founders and the successors) on major "objectives and goals." For example, the successor(s) may want to take over the farm tomorrow but the founders (parents) want to be involved indefinitely into the future. Somehow, this discrepancy must be addressed.

At this point, the founders need to assess how much money they need for retirement. The successor(s) need to consider what they can afford to pay. The viability and profitability of the farm business is an important consideration.

Consider obtaining the services of a trained outside facilitator to assist in these discussions — particularly when dealing with family members' objectives, goals and expectations. A number of factors affect objectives and goals. These include past family history, family values, personality conflicts, family relationship dynamics, favouritism, life stages issues and associated challenges.

STEP 1: COLLECT AND ANALYZE INFORMATION

In the first step, information is gathered and analyzed in order to:

- improve the farm family's general knowledge of succession planning
- collect relevant technical information (particularly financial)
- analyze financial viability and profitability of the farm business and
- review additional specific technical information.

Enhance General Knowledge of Succession Planning

Family members need to acquire a basic understanding of the succession planning process — read articles about succession planning and/or attend a succession planning workshop or seminar.

Collect Relevant Technical Information

Next, pull together relevant technical information about the farm. Compile and review the legal will, the power of attorney, tax returns, financial statements, current financing arrangements, retirement savings position, any business and legal agreements, etc. Identify any missing pieces. This is a prerequisite to completing an analysis of the farm business's financial situation to determine viability and profitability.

Analyze Financial Viability and Profitability of the Farm Business

Once the financial information is collected, use the financial statements to analyze the farm business's past and current financial situation.

The farm's financial performance can then be compared to industry benchmarks to determine the farm's relative current financial situation and profitability. In addition, develop projected cash flow and income statements to investigate the potential future financial situation and viability of the business.

The business has to be profitable and viable. If it does not currently generate enough income, what changes can be made to ensure it does in the near future?

The question is, "Does the business currently generate enough income (i.e. profit) to support another household, provide for a financially secure retirement for the founders and ensure a financially sound business for the successor(s)? Family living costs are a

serious consideration at this time. Review whether there will be any drastic changes in family living requirements over the next while (e.g. a family member active in the business getting married, having children, building a house, etc.).

Review Additional Specific Technical Information

Consider any additional relevant specific technical information. This includes details related to methods of transfer, financing options, tax and legal considerations, business structures and such. This information is helpful in Step 2, Generate Options.

STEP 2: GENERATE OPTIONS

Here information gathered in the Preliminary Step and Step 1 plays an essential role. Options need to be generated to address the various issues related to, but not limited to:

- ownership transfer options—purchase, rent, gifts, bequests, etc.
- financing options (both internal and external)
- business organizations/structures (i.e. sole proprietorship, partnership, corporation, etc.)
- legal considerations (e.g. will, power of attorney, etc.); inclusion of dispute resolution mechanisms in business agreements
- tax strategies and implications.

Investigate different “what if” scenarios and develop contingencies to address such things as disagreement, disaster, death, disability and divorce. Flexibility is the key. A good facilitator can guide the family through reviewing the various options along with providing some helpful hints.

It is recommended to identify a team of advisors. This team, which might include a facilitator, an accountant and a lawyer, provides advice related to the various options as the plan is developed. Additional team members might include a lender or credit advisor, business advisor (sometimes the facilitator but not necessarily), a financial planner, an insurance specialist and, of course, farm family members. It is a good idea to have a “team meeting” to discuss goals, objectives and expectations along with options.

The farm family must be in control of the process because it is their succession plan.

STEP 3: MAKE PRELIMINARY DECISIONS

At this step, the family needs to make preliminary decisions on the direction of the plan and start to focus their efforts based upon family/individual preferences, objectives, goals and expectations. The team of advisors can provide input, comments and suggestions regarding various options and decisions.

Once the family knows how they wish to proceed, what they want to achieve and a timeframe, they must document the ‘narrowed-down’ options in a rough draft form.

STEP 4: DESIGN, DEVELOP, WRITE AND REVIEW

Once preliminary decisions are made and options drafted, it is time to develop the plan further and make decisions. However, in some instances, farm families may want to go back and generate new options. Again, the process is not necessarily a straight line but family members need to feel comfortable with decisions.

The written succession plan incorporates any decision and describes how best to achieve what family members want to have happen to the farm business. This will include:

- a summary of the overall plan
- a business overview
- a strategic plan with a description of the personal and business goals and expectations of family members
- a retirement plan
- a management, control and labour transfer plan
- a financial plan
- an action plan and implementation timetable
- supporting documentation.

The written plan can also include:

- a training and development plan for the successor(s)
- a communication plan
- a contingency plan.

As decisions are documented, the team of advisors reviews the plan and provides detailed feedback, advice and comments.

Once this occurs, the family should conduct a review and have a discussion. This should be an open

process. Make any necessary modifications and/or revisions.

Additional information on the contents of a written plan can be found in the OMAFRA Factsheet *Components of a Farm Succession Plan*, Order No. 10-023. Ordering information is at the end of this Factsheet.

STEP 5: IMPLEMENT AND MONITOR

The best-laid plan can fall apart if it is not implemented. The plan must be practical and straightforward to put into action. Providing copies of the plan to family members may help to create an atmosphere of openness. This reduces concerns and possible misunderstandings as the plan unfolds. The timetable should be followed.

As the plan is implemented, progress must be monitored. As part of this, issues might arise. The plan may then need to be modified. Flexibility is the key. If something needs to be fine-tuned and updated then follow through with the appropriate action.

And finally, given credit where credit is due — celebrate the achievements.

SECTION 2 — STEP-BY-STEP CHECKLIST

This step-by-step checklist uses the process outlined above and highlights key points to consider at each step.

The checklist should help farm families (and their team of advisors) decide where they are in the succession planning process and outline ideas of what needs to be done, along with helping to identify gaps.

PRELIMINARY STEP

- ☐ Consideration has been given to all the tools and supports available through the Growing Forward Business Development for Farm Businesses Program (www.ontario.ca/growingforward).
- ☐ The family has participated in a Growing Your Farm Profits workshop, and assessed the current farm business, prioritized key goals for the farm and identified the action steps needed to achieve these goals.

The family is aware of the cost-sharing opportunities for:

- ☐ Farm Financial Assessment (which can assist financial plan development)
- ☐ Agriculture Skills Development (which can support successor training)
- ☐ Advanced Business Planning (which can include developing a succession plan)
- ☐ Business Plan Implementation (which can assist in some succession plan implementation costs such as legal documentation of ownership transfer)

Open the Lines of Communication

- ☐ Future family involvement in the business has been discussed and the lines of communication are open.

Define Personal, Family and Business Objectives & Goals

- ☐ Everyone has defined individual personal, family and business goals.
- ☐ A mechanism has been established to discuss general business and succession planning issues (e.g. family business meetings).
- ☐ Using the above mechanism, everyone has had the opportunity to talk about individual expectations, needs, objectives and goals for themselves and for the farm business
- ☐ The issue of fair and equitable treatment of family members (both farming and non-farming) has been discussed.
- ☐ There have been discussions about decision-making and how this will be handled in the future.

Identify the Successor

- ☐ There has been a discussion regarding who wants to be involved and potentially take over the farm business in the future.

Assessment of the Compatibility of the Objectives & Goals

- ☐ The family has assessed the compatibility of each individual's personal, family and business objectives and goals.
- ☐ A strategy has been developed to address any serious discrepancy or incompatibility.
- ☐ The founder generation has examined both the financial and human aspects of retirement.

STEP 1: COLLECT AND ANALYZE INFORMATION

Enhance General Knowledge of Succession Planning

- ☐ Family members have attended an introductory workshop or seminar.
- ☐ Family members have read succession-planning information. (A partial list can be found at the end of this Factsheet.)
- ☐ The family has started to talk about succession planning; asking questions and seeking clarification.
- ☐ A decision has been made regarding the involvement of an outside facilitator (e.g. someone to help guide the process).

Collect Relevant Technical Information

The most current version of the following material, documents and information has been found in the files:

- ☐ legal will(s)
- ☐ power of attorney(s)
- ☐ property deeds
- ☐ mortgages and loan information
- ☐ past and any current tax records and information
- ☐ past and current financial records.
- ☐ past and current financial statements
- ☐ past and current production and performance records
- ☐ bank account information
- ☐ savings and off-farm investment information
- ☐ retirement planning and savings
- ☐ a current list of debts and other liabilities
- ☐ a current list of suppliers and service providers (e.g. lawyer, accountant, nutritionist/feed company, equipment supplier, etc.)

- ☐ any other business related material or information.

Analyze Financial Viability and Profitability of the Farm Business

- ☐ A farm financial analysis (e.g. ratio analysis and benchmark comparison) has been completed.
- ☐ It has been determined if the business has sufficient cash flow to meet today's financial obligations.
- ☐ It has been determined if it is profitable and viable today.
- ☐ If it is not profitable and viable, necessary changes have been identified to make it so in the future.
- ☐ Farm financial projections have been developed.
- ☐ An action plan, which describes the above necessary changes and how business will move forward, has been developed.
- ☐ It has been determined if the business currently generates enough income (i.e. profit) to support another household.
- ☐ Additional family living costs (of supporting another household) have been considered.
- ☐ Consideration has been given to whether there will be any drastic changes in family living requirements over the next while (e.g. a family member active in the business is getting married, having children, buying or building a house, etc.).

Review Additional Specific Technical Information

Additional specific technical information has been assembled and reviewed. This included such things as:

- ☐ methods of transfer
- ☐ financing options of the transfer
- ☐ tax implications
- ☐ legal implications
- ☐ business structure options (e.g. sole proprietorship, partnership, corporation, etc.)
- ☐ business agreements
- ☐ tenancy issues (e.g. lease, joint tenancy vs. tenancy-in-common).

STEP 2: GENERATE OPTIONS

- ☐ Numerous options have been generated to address as many family and business needs as possible, relative to, but not limited to, the following:
- ☐ Ownership transfer options—purchase, gifts, bequests, etc. of assets (e.g. options for ownership and use of equipment and machinery, land and buildings along with productive assets like crops, livestock, quota).
- ☐ Various financing options (both internal and external) have been investigated. This includes outright purchase with external financing, a purchase with a mortgage back, partial purchase-partial gift-partial bequest, etc.
- ☐ The business organizations/structures options (i.e. sole proprietorship, partnership, corporation, etc.) have been reviewed.
- ☐ Legal considerations (e.g. will, power of attorney, etc.) have been looked into. Thought has been given to including dispute resolution mechanisms in any business agreements.
- ☐ Tax strategies and implications have been discussed.
- ☐ Retirement issues (examples listed below) have been considered:
 - ☐ preparing for and securing retirement
 - ☐ where the money will come from
 - ☐ what activities the retiring generation will take part in
 - ☐ if the retiring generation will remain involved in the labour, management and ownership of the family farm business
 - ☐ where everyone will live.
- ☐ Insurance needs (life, disability, critical illness, etc.) have been investigated.
- ☐ If two generations are going to continue working together, have the following been considered:
 - ☐ division of labour, management, roles and responsibilities
 - ☐ how the successor's skills and knowledge will be developed
 - ☐ an employment contract
 - ☐ a gross income sharing agreement
 - ☐ a net income sharing agreement
 - ☐ a rental agreement
 - ☐ other types of agreements
 - ☐ including a dispute resolution mechanism in any agreement
 - ☐ fair and equitable treatment of all children (both farming and non-farming)?
 - ☐ how non-family employees will be treated and how they might be affected by the transition.
- ☐ A number of different "what if" scenarios have been developed along with contingencies to address such things as disagreement, disaster, death, disability and divorce.
- ☐ Working through the process with a facilitator has been considered.
- ☐ A team of advisors has been identified. This team can provide helpful hints and advice related to the various options as the plan is developed.
- ☐ Advisory team members might include:
 - ☐ a facilitator
 - ☐ an accountant (with specialized farm tax knowledge)
 - ☐ a lawyer
 - ☐ a lender or credit advisor
 - ☐ business advisor (sometimes the facilitator but not necessarily)
 - ☐ a financial planner
 - ☐ an insurance specialist
 - ☐ farm family members.
- ☐ A "team meeting" has been held to discussion goals, objectives and expectations along with some options.
- ☐ Options and decisions have been written down and ideas documented.

STEP 3: MAKE PRELIMINARY DECISIONS

- ☐ The family has started to use options outlined in STEP 2 to make and document preliminary decisions about the transfer of ownership, labour, and management, and control and retirement.
- ☐ A rough draft of the preliminary decisions and plan has been developed.

STEP 4: DESIGN, DEVELOP, WRITE AND REVIEW

- ☐ It has been determined if the current legal will is up-to-date. This includes considering if there has been any major changes since the will was updated.
- ☐ It has been determined if the power of attorney is current and up-to-date.
- ☐ The family has created and written down draft ideas and plans that incorporate the preliminary decisions.
- ☐ These ideas and plans describe how best to achieve what the family wants to happen to both the farm business and the estate.
- ☐ It has been determined who will develop and prepare the initial written draft of the plan, i.e. a family member, facilitator, advisor consultant (it might be a consultant under the Specialized Business Planning Services), accountant, lawyer, etc.
- ☐ The plan is drafted and incorporates:
 - ☐ a summary of the overall plan
 - ☐ a business overview
 - ☐ a strategic plan with a description of the personal and business goals and expectations of family members
 - ☐ a retirement plan
 - ☐ a management, control and labour transfer plan
 - ☐ a financial plan
 - ☐ an action plan and implementation timetable
 - ☐ supporting documentation.
- ☐ Consideration has been given to also include:
 - ☐ a training and development plan for the successor(s)
 - ☐ a communication plan
 - ☐ a contingency plan.
- ☐ Family farm management team (farming family members) review the draft plan.
- ☐ The various advisors' ideas and advice have been incorporated into the plans.
- ☐ It meets everyone's (family members active on farm management team) objectives, goals and expectations.
- ☐ Changes have been identified to address concerns and issues raised.
- ☐ A review has been completed with family members (farm and non-farm). They have answered such questions as:
 - ☐ Does the plan meet everyone's objectives, goals, needs and expectations?
 - ☐ If not, what changes are needed to address these concerns?
- ☐ The plan was revised based upon the above feedback.
- ☐ The family farm management team met with all advisors as a group to review and discuss the plan. This helped ensure the plan addresses most issues and the components are well integrated and work together. Each advisor played a role as follows:
 - ☐ The accountant provided advice on the tax implications of alternative strategies and made suggestions on how best to handle specific transactions.
 - ☐ The lawyer reviewed and gave advice on: the legal ramification of various agreements, and ensuring the process follows legal rules and regulations.
 - ☐ The lender was involved and provided financing options for the transfer of assets.
 - ☐ The financial planner helped with planning both personal and business savings and investment strategies, as well as addressing retirement savings issues.
 - ☐ The insurance specialist looked at life, disability and other insurance tools that are part of the overall plan.
 - ☐ The business advisor and/or facilitator (can be one in the same) looked at the strategies and advice from the other professionals and provided clarification, if needed.
- ☐ All parts have been reviewed and revised.

- ☐ Family members (farming and non-farming children) have had a chance for a final review and comments.
- ☐ It has been an open process.

STEP 5: IMPLEMENT AND MONITOR

- ☐ Copies of the plan's timetable have been distributed to family members.
- ☐ The plan is being implemented into action. What is done? What still needs to be done?
- ☐ The implementation timetable is being followed.
- ☐ A timeline has been set to review the plan and make any necessary adjustments.
- ☐ Credit has been given where credit is due.

SUMMARY

This Factsheet summarized the major steps of the succession planning process. It also provided a checklist of some of the main issues and considerations at each step of the process.

OTHER RESOURCES AVAILABLE OMAFRA Business Factsheets

Farm Succession - Do's and Don'ts, Order No. 08-043
Components of a Farm Succession Plan, Order No. 10-023
Taxation on the Sale of Farm Business Assets, Order No. 08-047
Taxation on the Transfer of Farm Business Assets to Family Members, Order No. 09-015
Farm Business Partnerships, Order No. 02-047
Farm Business Joint Ventures, Order No. 02-069
Farm Corporations, Order No. 01-057
Options for Farmers Dealing with Financial Difficulties, Order No. 08-033
Programs and Services for Ontario Farmers, Order No. 09-053
Choosing a Business Consultant, Order No. 09-033

Other OMAFRA Resources

OMAFRA Agricultural Business Management
www.omafra.gov.on.ca/english/busdev/agbusdev.html
 OMAFRA Farm Financial Assessment Advisor Roster
www.omafra.gov.on.ca/english/busdev/farmfamadv-advisors.htm

Other Resources

Canadian Farm Business Management Council website
www.farmcentre.com. A listing of advisors providing advanced business planning services is available at www.farmcentre.com/farmadvisors/.
Managing the Multi-Generational Family Farm.
www.farmcentre.com
Working Together... Building Confidence in Family Farm Succession - A Multi-Disciplinary Agri-Succession Case Study Commentary. www.farmcentre.com

REFERENCES

Adapted from:
Family Farm Business Advisor: Manual for Farm Families and Their Professional Advisors. Manitoba Agriculture, Manitoba Farm Business Management Program, 1996, Chapter 11.

This publication is intended as general information and not as specific advice concerning individual situations. Although it outlines some of the legal and tax considerations of farm succession planning, it should not be considered as either an interpretation or complete coverage of the Income Tax Act or the various law affecting farm succession planning. The Government of Ontario assumes no responsibility towards persons using it as such.

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